

**Written Submission for the Pre-Budget
Consultations in Advance of the 2019 Budget**

By: UPS Canada

Section A: Summary Recommendations

- **Recommendation 1:**

- *That the government allow Natural Resources Canada to re-allocate infrastructure funds to encourage faster transition amongst class six to eight transportation fleets (for example, under the Electric Vehicle and Alternative Fuel Infrastructure Deployment Initiative).*
- *That the government allow for 50% cost-sharing incentives for onsite fueling and shop upgrades for natural gas (CNG, LNG, RNG), propane, and electric vehicles.*

- **Recommendation 2:**

- *That the government increase research and pilot programming under the Transportation Economic Analysis and Research Branch of Transport Canada to help prepare Canadian cities for rising e-commerce volume, and keep Canadian businesses competitive in the burgeoning digital economy.*

- **Recommendation 3:**

- *That the government implement a consistent method of collecting duties and taxes on imports into Canada, thereby allowing fair competition for Canadian businesses, improving the competitive landscape for importers and domestic retailers, and preventing the loss of essential public revenue.*

- **Recommendation 4:**

- *That the government implement technology that will improve commercial traffic flows at the land border, such as Radio-frequency identification (RFID), and electronic power of attorney (POA).*

Section B: Full Submission

About UPS Canada

UPS Canada employs over 12,000 Canadians, working in 63 facilities across Canada. Our expansion into Canada in 1975 was UPS's first step towards becoming a global company. We have continued to invest in Canada and its people ever since. In March, 2018, UPS announced a \$500 Million CAD investment in Canada, to go towards new technology, facility expansions, alternative fuel vehicles and 1,000 new jobs. Amidst the changing trade and business landscape, UPS remains committed to growth and investment in our Canadian operations.

UPS is a global leader in logistics, offering a broad range of solutions including the transportation of packages and freight, the facilitation of international trade, and the deployment of advanced technology to more efficiently manage the world of business. With its wide array of services to 220 countries and territories, UPS delivers 20 million packages and documents every day. UPS Canada's fleet includes over 2,900 vehicles (package cars, tractors and shifters) of which more than 40% run on alternative fuels.

UPS Canada welcomes the theme of the 2019 pre-Budget consultation. Ensuring the competitiveness of Canadian businesses of all sizes lies at the heart of UPS Canada's activity and investment across the country. Our company seeks to maintain an efficient and highly integrated transportation network in Canada, which seamlessly connects Canadian businesses to both domestic and international markets. UPS Canada remains committed to multiple initiatives which provide guidance and export readiness assessments to Canadians seeking to enhance their competitiveness, either by exporting finished products to markets abroad, or utilizing global supply chains to their competitive advantage.

The following recommendations focus on two dimensions of Canadian competitiveness; improving the efficiency of goods movement in Canada, and facilitating both domestic and international trade for Canadian businesses.

Recommendation 1:

- *That the government allow Natural Resources Canada to re-allocate infrastructure funds to encourage faster transition amongst class six to eight transportation fleets (for example, under the Electric Vehicle and Alternative Fuel Infrastructure Deployment Initiative).*
- *That the government allow for 50% cost-sharing incentives for onsite fueling and shop upgrades for natural gas (CNG, LNG, RNG), propane, and electric vehicles.*

UPS Canada applauds the government for its consistent efforts to encourage the uptake of electric and alternative fuel vehicles amongst Canadian transportation fleets. For industry, a challenge remains in terms of the capital expenditure required to invest in a) new onsite fueling stations, and b) upgrades to fleet facility shops in order to service new technology vehicles.

UPS Canada successfully launched its first Compressed Natural Gas (CNG) fleet of 47 vehicles this year in Richmond, British Columbia. However, we are not able to expand our natural gas and alternative fuel fleet in Canada as quickly as we would like to due to cost. Shop upgrades to service natural gas vehicles run from \$260,000 - \$500,000 CAD, while our first on-site natural gas fueling station cost upwards of \$900,000 CAD. Similarly, quick-charge stations for electric fleets remain expensive.

UPS Canada has been and will continue to be a partner at the table as Canada transitions to a low-carbon economy. However, given the uncertainty in Ontario's vehicle incentive programming, we believe this re-allocation of funds would enable uninterrupted uptake amongst green fleet companies like UPS, and enable Canada to continue to lead globally on sustainable economic growth and competitiveness initiatives.

Recommendation 2:

- *That the government increase research and pilot programming under the Transportation Economic Analysis and Research Branch of Transport Canada to help prepare Canadian cities for rising e-commerce volume, and keep Canadian businesses competitive in the burgeoning digital economy.*

The movement of goods by post and courier is growing in Canada, and patterns indicate that this increase can be attributed to a rapid rise in e-commerce activity among Canadians (i.e. peak delivery over Christmas and Cyber Monday). Given our global experience delivering packages in the world's largest cities, UPS understands the importance of a

targeted approach to urban delivery, and the need for companies like ours to invest in new, innovative technology that will alleviate congestion in urban areas.

Most recently, UPS launched a cargo bike pilot to test package delivery in Toronto¹. Our next steps are to scale up, and to push past the regulatory barriers to the use of cargo bikes with e-assist capabilities we experienced at the provincial and federal levels of government. UPS believes that innovations such as cargo and e-bike delivery would experience more rapid growth in Canadian cities with the support of dedicated research, regulatory guidance, and pilot project funding from the federal government. Therefore, UPS recommends that the government implement more robust programming to examine the impact of e-commerce related to infrastructure, public policy, and regulation; in addition, we recommend a modest investment in financial and regulatory support for public-private pilot programs testing more efficient methods of package delivery amidst rising volume.

Recommendation 3:

- *That the government implement a consistent method of collecting duties and taxes on imports into Canada, thereby allowing fair competition for Canadian businesses, improving the competitive landscape for importers and domestic retailers, and preventing the loss of essential public revenue.*

A 2016 study by Copenhagen Economics, commissioned by UPS Canada, found that there is an inconsistent collection of duties and taxes by national postal operators compared with express carriers on imports coming into Canada². This inconsistent collection policy harms Canadian competitiveness by ensuring Canadian sellers consistently pay federal and provincial taxes, while allowing importers who use national postal operators to evade taxes and duties. This uneven policy also costs the federal and provincial governments more than one billion dollars in missed revenue. Highlights of the study indicate that:

- There is a significant gap in tax collection (Harmonized Sales Tax and Provincial Sales Tax) for goods purchased online and imported into Canada via national postal services when compared with goods imported via express carriers.
- Import duty is collected on only 6% of postal shipments imported into Canada, whereas express operators collected on 98% of shipments.

¹

<https://www.pressroom.ups.com/pressroom/ContentDetailsViewer.page?ConceptType=PressReleases&id=1509565578810-494>

² <https://www.copenhageneconomics.com/publications/publication/e-commerce-imports-into-canada-sales-tax-and-customs-treatment>

- Sales tax is collected on only 25% of postal shipments imported into Canada, whereas express operators collected on 100% of shipments.
- It is estimated that this incomplete collection results in up to \$1.3 billion in lost revenue for the Government of Canada.

A commitment by the Government of Canada to address this counter-productive loss of public sector revenue, and ensure appropriate resources to enforce consistent collection of duties and taxes on imports into Canada would constitute an important step towards leveling the playing field and improving competitiveness, both for delivery service providers and Canadian businesses. This may be achieved by allocating additional resources to the Canada Border Services Agency (CBSA), and further enabling an industry-wide consultation and working group to determine a competitive and efficient processes for duty and tax collection on e-commerce imports by all carriers.

Recommendation 4:

- *That, in the spirit of boosting Canada's competitiveness, the government implement policies and technology that will improve commercial traffic flows at the land border, such as Radio-frequency identification (RFID), and electronic power of attorney (POA).*

Amidst ongoing trade actions between Canada and the United States, it is imperative that goods crossing the land border are not subject to any additional or unnecessary red tape. UPS recommends the following measures to support eased flow of commercial goods and minimal disruption to closely-integrated supply chains:

- *Exempt items under \$20 CAD from the surtaxes in response to U.S. Section 232 tariffs on aluminum and steel*

To avoid additional stress on the Canada Border Services Agency (CBSA), and the slower and potentially more costly movement of goods to Canadian businesses, UPS Canada recommends the Government of Canada does not apply surtaxes in response to the U.S. Section 232 tariffs to shipments imported into Canada under both the Courier Imports Remission Order and the Postal Imports Remission Order (i.e. goods valued at less than \$20.). Should the government choose to apply surtaxes, items under \$20 CAD value would require a customs broker; additional power of attorney paperwork; and additional administrative steps, including the precise identification of the low-value goods being imported, and attribution of an HS code. UPS has concerns that application of these surtaxes could result in an overall slowdown at the border, with the potential to impede Canadian businesses with highly integrated supply chains.

- *Install Radio Frequency Identification (RFID) readers at Canada's busiest commercial land ports*

RFID signals are transmitted by transponders affixed to the windshield of trucks crossing the border. At present, RFID is only used by U.S. Customs and Border Patrol (U.S. CBP) at ports of entry into the U.S., while Canada has yet to install RFID readers at any commercial lane at any port. A truck equipped with a transponder where the RFID signal is "read" by customs before the truck comes to a complete stop allows customs agencies to begin the risk assessment process sooner than when no RFID is used. The RFID technology enables trucks to be processed through the primary inspection line on average 90 seconds faster than when no RFID technology is present. While the time saved per-truck may seem insignificant, the cumulative impact is considerable, given that the Ambassador Bridge alone processes 12,000 trucks per day. Since most trucks crossing the border already have transponders, the government could have a significant impact on traffic at Canada's busiest ports of entry with very little investment by installing the same "readers" of the transponder technology. Moreover, by equipping the northern border into Canada with RFID, the government could level the playing field for Canadian exports, which are currently at a time disadvantage compared to U.S. Imports coming into Canada.

- *Elimination of "wet-ink" power of attorney*

UPS Canada encourages the government to allow digitization of all customs documentation, including powers of attorney (POA). It has become common practice in business transactions to substitute an electronic signature for a "wet-ink" signature on POA, which reduces administrative burden. UPS Canada recommends the government consider similar modernization efforts and remove the "wet-ink" power of attorney requirements, facilitating the growth of e-commerce to the benefit of consumers in Canada and abroad.